

PERAC PENSION NEWSFLASH

Oct. 3, 2005 | Commonwealth of Massachusetts | Public Employee Retirement Administration Commission

PERAC

Five Middlesex Avenue
Third Floor
Somerville, MA 02145
ph 617 666 4446
fax 617 628 4002
tty 617 591 8917
web www.mass.gov/perac

The Honorable
Domenic J. F. Russo
Chairman

The Honorable
A. Joseph DeNucci
Auditor of the
Commonwealth
Vice Chairman

Henry G. Brauer
Investment Professional

Kenneth J. Donnelly
Lieutenant
Lexington Fire Department

Eric Kriss
Secretary
Executive Office of
Administration & Finance

James M. Machado
Sergeant
Fall River Police Department

Donald R. Marquis
Former Town Manager
Arlington

Joseph E. Connarton
Executive Director

For further information:

Michael J. DeVito
Editor
ph 617 666 4446 x.971

PERAC ISSUES COLA REPORT

Study analyzed cost impacts of increasing the COLA base

The Public Employee Retirement Administration Commission (PERAC) has released its analysis of Section 375 of Chapter 149 of the Acts of 2004 which required PERAC to analyze, study, and evaluate the costs and actuarial liabilities associated with increasing the base to which cost of living adjustments (COLAs) are applied under G.L. c. 32, §102. The legislation directed PERAC to complete an analysis of the costs and liabilities attributable to increasing the COLA base in accordance with the Act and submit a report and recommendations to the House and Senate Committees on Ways and Means along with the Joint Committee on Public Service by December 31, 2005.

The legislation provided that the costs and liabilities be analyzed for COLA bases ranging from \$12,000 to \$22,000, in increments of \$1,000. The legislation also provided that funding schedules be developed that reduce the increase in unfunded liability due to the increased COLA bases to zero by June 30, 2028, June 30, 2034, and June 30, 2038.

The results in this report reflect the January 1, 2004 valuation results for the State Retirement System, State Teachers' Retirement System, and Boston teachers. These groups determine the Commonwealth funding schedule. PERAC also calculated the impact for several local retirement systems and found the changes to be similar to the Commonwealth on a percentage basis.

PERAC's Recommendations

There were three major questions that the Commission considered in making its recommendations:

1. Should a recommendation be made that the COLA base be increased?
2. If yes, what is the recommended increase?
3. If yes, how will the additional cost be funded?

The Commission in the past has supported a "reasonable increase in the COLA base". The current law provides an annual COLA increase of up to 3% on the first \$12,000 of benefit (\$360 maximum). The COLA base has been raised periodically over time. The current \$12,000 base became effective in 1998.

COLAs are an important piece of sound pension plan design, especially for members who retire with long service. Defined benefit plans are designed to replace a certain percentage of a member's pre-retirement income. COLAs attempt to keep a retiree's benefit current with inflation over time. It would be appropriate to increase the current COLA base because the base has not kept up with inflation, the current base disadvantages the longer service employees, and it is not competitive with most other state and teacher systems. That being said, PERAC recognized that costs may increase significantly to provide additional COLA benefits and there may be current fiscal constraints. For this reason, a modest increase or phased increases might be more acceptable.

The Commissioners reviewed all the materials provided by the actuarial staff with respect to COLA costs and considerations and voted at the September 22, 2005 meeting to recommend the COLA base be increased. After further discussion, the Commission voted to recommend the COLA base be increased to \$16,000.

The Commission's recommendation is that a modification of the current schedule, if necessary, be adopted to fund the increased COLA cost.

If you have any questions regarding this study, please contact James Lamenza, PERAC's Actuary, at 617-666-4446, ext. 921.

